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Washington Parish Gas Utility District Number Two

Annual Financial Statements

As of and for the Year Then Ended December 31, 2006
With Supplemental Information Schedules

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 7/11/07



BRUCE HARRELL & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
A Professional Accounting Corporation

Washington Parish Gas Utility District Number Two

Annual Financial Statements
As of and for the Year Ended December 31, 2006
With Supplemental Information Schedules

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Independent Auditor's Report

To the Board of Commissioners
Washington Parish Gas Utility District Number Two
Washington Parish Council
Franklinton, Louisiana

We have audited the accompanying financial statements of the business-type activities of the Washington Parish Gas Utility District Number Two, a component unit of the Washington Parish Council, as of and for the year ended December 31, 2006, which comprise the district's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Washington Parish Gas Utility District Number Two's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Washington Parish Gas Utility District Number Two, as of December 31, 2006, and the respective changes in the financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2007, on our consideration of the Washington Parish Gas Utility District Number Two's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BRUCE HARRELL & CO., CPAs

CERTIFIED PUBLIC ACCOUNTANTS

A Professional Accounting Corporation

To the Board of Commissioners
Washington Parish Gas Utility District Number Two
Washington Parish Council
Franklinton, Louisiana
Page 2

The management's discussion and analysis and budgetary comparison information in this report, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Washington Parish Gas Utility District Number Two's basic financial statements. The supplemental information in this report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole.



Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

June 28, 2007

Management's Discussion and Analysis

Washington Parish Gas Utility District Number Two

Management's Discussion and Analysis As of and for the Year Ended December 31, 2006

Introduction

The Washington Parish Gas Utility District Number Two (the District) is pleased to present its Annual Financial Statements developed in compliance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments* (GASB 34), and related standards.

The District's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position, (d) identify any significant variations from the District's financial plan, and (e) identify individual fund issues or concerns.

Since Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with the District's financial statements in this report.

Financial Highlights

- X At December 31, 2006, total assets were \$1,014,841, and exceeded liabilities in the amount of \$338,624 (i.e., net assets). Of the total net assets, \$307,800 was unrestricted and available to support short-term operations, with the balance invested in capital assets, net of related debt.
- X Total long term debt decreased from \$602,673 to \$569,921 from the prior to the current year end. All prescribed monthly payments of principal and interest were made in a timely manner during the year ended December 31, 2006.
- X For the year ended December 31, 2006, user fee revenues (gas sales) decreased \$54,649 or 7% to \$687,457 as compared to \$742,106 for the fiscal year ending December 31, 2005.
- X The District's operating expenses, including depreciation expense, decreased by \$75,136 to \$422,263 as compared to \$347,127 for the prior fiscal year. Key components of the increase were salaries, employee benefits and gas line supplies, which collectively increased from prior year approximately \$65,000.
- X The District has recorded \$59,127 of non-operating revenue in 2006 from the Federal Emergency Management Agency as a result of the damage caused by hurricane Katrina to the District on August 29, 2005 in the prior year. The District received \$38,614 in October of 2006 and has an outstanding receivable of \$20,513 at December 31, 2006.

Washington Parish Gas Utility District Number Two

Management's Discussion and Analysis As of and for the Year Ended December 31, 2006

Overview of the Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A presents an overview of management's examination and analysis of Washington Parish Gas Utility District Number Two's financial condition and performance.

The financial statements report information on the District using full accrual accounting methods similar to those used in the private business sector. Financial statements include the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The Statement of Net Assets provides information about the nature and amount of the District's resources and obligations at year-end, and provides a basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses, and Changes in Net Assets, accounts for the operation of the District, for the revenues and expenses for the fiscal year, and provides information on how net assets changed during the year. This statement measures the success of the District's operations in a format that can be used to determine if the District has recovered its costs through user fees and other charges.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides information on the source of cash receipts, what the cash was used for, and the total change in cash for the reporting period.

The notes to the financial statements provide required disclosures essential to an understanding of the financial statements. The notes present information about the District's accounting policies, significant account balances and activities, commitments, contingencies, and subsequent events, if any. Supplementary information includes a comparative budget schedule, key information schedules on operation of the District, and schedules detailing audit findings and management response.

Financial Analysis

The purpose of financial analysis is to help determine whether Washington Parish Gas Utility District Number Two is better off as a result of the current year's activities. In this analysis, data from two of the basic financial statements, the Statement of Net Assets, and the Statement of Revenues, Expenses, and Changes in Net Assets, are presented below in condensed format. These statements report the net assets, the difference between assets and liabilities, and the change in net assets, which provides information for indicating the financial condition of the District. Following these statements is a separate schedule summarizing and analyzing budget changes for the current fiscal year.

Washington Parish Gas Utility District Number Two

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2006**

**Condensed Balance Sheet
2006 and 2005**

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets:				
Current and Other Assets	\$ 359,801	\$ 450,724	\$ (90,923)	-20%
Restricted Assets	98,475	90,723	7,752	9%
Capital Assets	556,565	591,862	(35,297)	-6%
Total Assets	<u>1,014,841</u>	<u>1,133,309</u>	<u>(118,468)</u>	-10%
Liabilities:				
Long-Term Debt Outstanding	535,581	569,923	(34,342)	-6%
Other Liabilities	140,636	192,826	(52,190)	-27%
Total Liabilities	<u>676,217</u>	<u>762,749</u>	<u>(86,532)</u>	-11%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	(13,356)	(10,811)	(2,545)	-24%
Restricted for Capital Activity and Debt Service	44,180	35,816	8,364	23%
Unrestricted	307,800	345,555	(37,755)	-11%
Total Net Assets	<u>\$ 338,624</u>	<u>\$ 370,560</u>	<u>\$ (31,936)</u>	-9%

The major components of change for "Current and Other Assets" are a \$40,039 decrease in accounts receivable and a \$54,702 decrease in inventory.

"Capital Assets" decreased by \$35,297, reflecting \$25,845 in equipment purchases, and depreciation recorded on capital assets of \$61,142 for the fiscal year ending December 31, 2006.

The decrease in "Long-Term Debt Outstanding" of \$32,752 is due to payment of principal on existing gas revenue bonds for the year.

"Total Net Assets" (total assets less total liabilities) decreased by \$31,936 for the fiscal year ending December 31, 2006, primarily because of the decreases noted for "Current and Other Assets".

Washington Parish Gas Utility District Number Two

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2006**

**Condensed Statement of Revenues, Expenses and Changes in Net Assets
2006 and 2005**

	<u>Year ended December 31, 2006</u>	<u>Year ended December 31, 2005</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Revenues:				
Operating Revenues	\$ 695,271	\$ 753,471	\$ (58,200)	-8%
Nonoperating Revenues	64,154	5,373	58,781	1094%
Total Revenues	<u>759,425</u>	<u>758,844</u>	<u>581</u>	0%
Expenses:				
Cost of Gas Sold	282,087	344,456	(62,369)	-18%
Depreciation Expense	61,142	59,587	1,555	3%
Other Operating Expense	361,121	287,540	73,581	26%
Nonoperating Expense	87,011	29,358	57,653	196%
Total Expenses	<u>791,361</u>	<u>720,941</u>	<u>70,420</u>	10%
Changes in Net Assets	(31,936)	37,903	(69,839)	-184%
Beginning Net Assets	<u>370,560</u>	<u>332,657</u>	<u>37,903</u>	11%
Ending Net Assets	<u>\$ 338,624</u>	<u>\$ 370,560</u>	<u>\$ (31,936)</u>	-9%

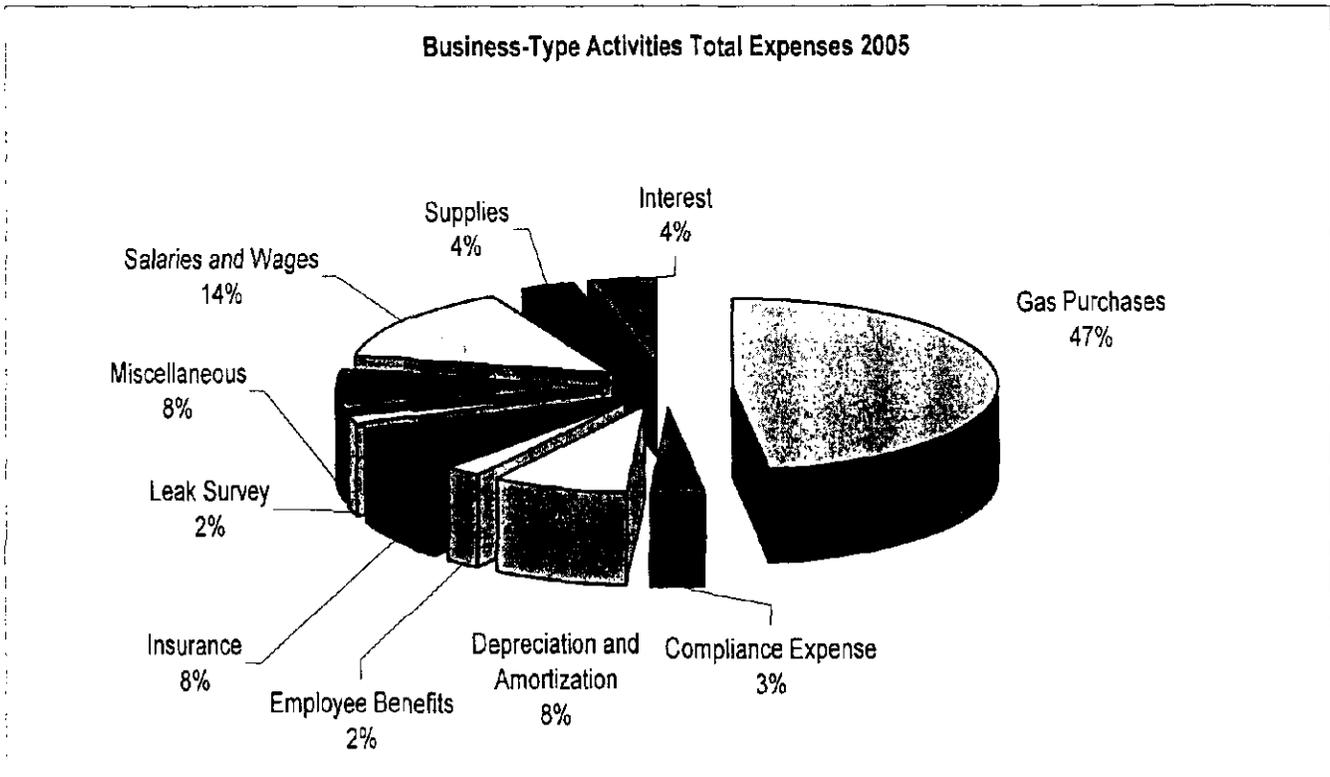
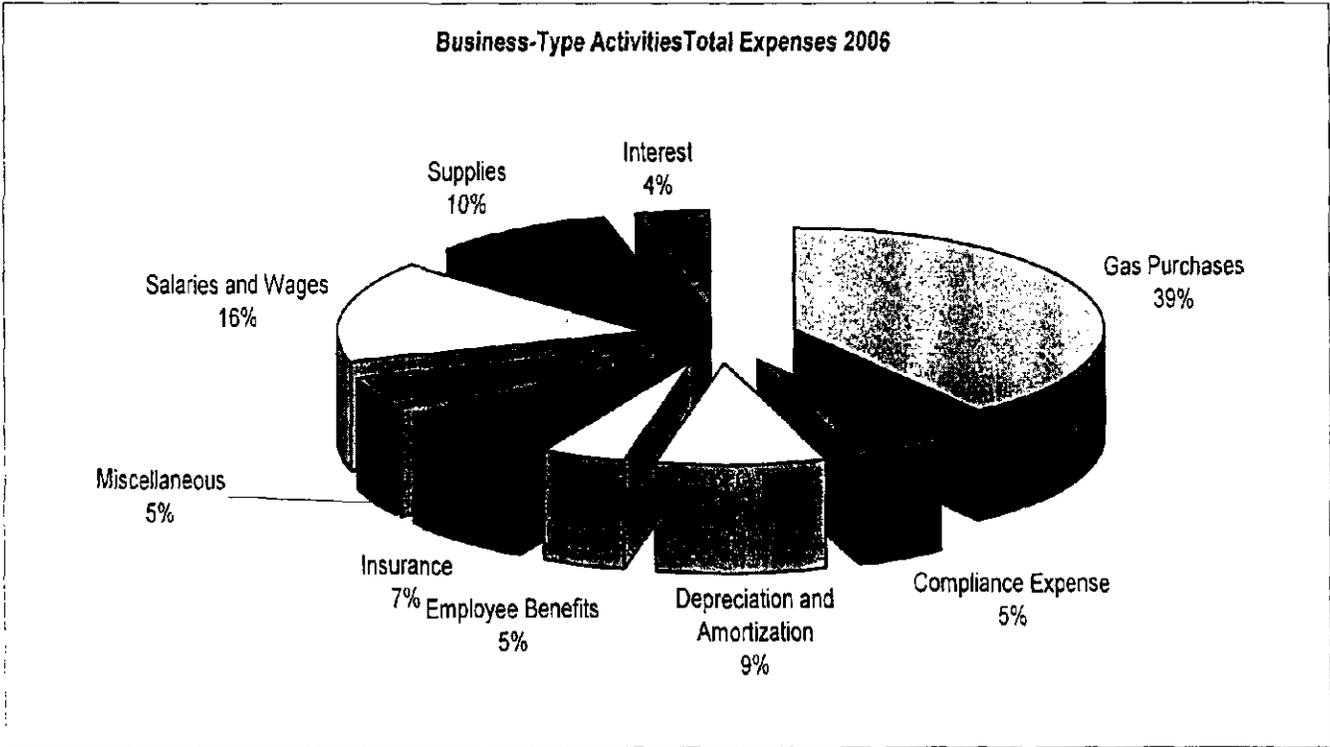
While the Balance Sheet shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers to the nature and scope of these changes. The above table gives an indication of how Washington Parish Gas Utility District Number Two is being conservatively managed.

Total "Operating Revenues" (including gas sales and revenues related to providing gas and related services to customers) decreased by \$58,200 primarily due to a decrease in gas sales. Interest income decreased \$346.

Total operating expenses increased by \$75,136 from the prior fiscal year. Most notable in the increase was a \$37,428 increase for supplies and line relocation costs. Gross profit on gas sales increased from 54 to 59 percent.

Washington Parish Gas Utility District Number Two

Management's Discussion and Analysis
As of and for the Year Ended December 31, 2006



Washington Parish Gas Utility District Number Two

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2006**

Budgetary Highlights

Washington Parish Gas Utility District Number Two adopts an annual operating budget in accordance with requirements of the United States Department of Agriculture, Rural Utilities Service. This budget provides an estimate for the current fiscal year of the proposed expenditures and the revenues that will finance the operations of the District. The operating budget is adopted before the end of the prior fiscal year, and is amended by the Board of Commissioners after review of monthly budget-to-actual financial reports. A summary of the approved budget is presented below in a condensed format summarizing major revenue and expenditure categories, and is followed by analysis of significant variations between budget and actual amounts. Although not presented as a part of the basic financial statements, a more detailed schedule is also presented in "Schedule 1 - Budgetary Comparison Schedule", as supplementary information, following the footnotes to the financial statements.

The proposed budget for 2006 was presented at the November 22, 2005 board meeting, and adopted at the December 15, 2005 meeting. The budget is prepared on the accrual basis of accounting with an additional provision for bond debt service. The board forwarded a copy of the approved budget to the Washington Parish Council. The board reviews the budget actual comparison on a monthly basis as a part of their management of the system. The 2006 budget was amended at November 21, 2006 board meeting. The 2007 budget was presented at the November 21, 2006 board meeting and adopted at the December 8, 2006 meeting.

Budget vs. Actual - Fiscal Year ended December 31, 2006

	<u>Budget Year ended December 31, 2006</u>	<u>Actual Year ended December 31, 2006</u>	<u>Favorable (Unfavorable) Variance</u>
Revenues:			
Operating Revenues	\$ 659,100	\$ 695,271	\$ 36,171
Nonoperating Revenues	5,000	64,154	59,154
Total Revenues	<u>664,100</u>	<u>759,425</u>	<u>95,325</u>
Expenses:			
Cost of Gas Sold	284,500	282,087	2,413
Depreciation Expense	55,000	61,142	(6,142)
Other Operating Expense	305,260	361,121	(55,861)
Nonoperating Expense	53,100	87,011	(33,911)
Total Expenses	<u>697,860</u>	<u>791,361</u>	<u>(93,501)</u>
Income (Loss)	<u>\$ (33,760)</u>	<u>\$ (31,936)</u>	<u>\$ 1,824</u>

Washington Parish Gas Utility District Number Two

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2006**

General Operating Data

One key measure of a gas district's profitability, and the ability to generate positive cash flows, is the ability of the gas system to collect accounts receivable on a timely basis. Presented below is an aged receivable listing for the fiscal years ending December 31, 2006 and 2005.

	<u>Year Ended December 31, 2006</u>	<u>Year Ended December 31, 2005</u>	<u>Increase (Decrease)</u>
Accounts Receivable			
Current	\$ 104,176	\$ 171,901	\$ (67,725)
31-60 Days Past Due	13,652	9,636	4,016
61-90 Days Past Due	5,058	2,465	2,593
Over 90 Days Past Due	<u>2,088</u>	<u>993</u>	<u>1,095</u>
Subtotal	124,974	184,995	(60,021)
Allowance for Uncollectible Accounts	<u>(5,826)</u>	<u>(5,826)</u>	-
Net Accounts Receivable	\$ <u>119,148</u>	\$ <u>179,169</u>	\$ <u>(60,021)</u>

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year ending December 31, 2006, Washington Parish Gas Utility District Number Two had \$556,565 (net of accumulated depreciation) recorded in capital assets. This includes gas line systems and improvements, investment in gas meters, storage and other equipment, such as office equipment, and maintenance equipment used to operate the gas system. The changes in capital assets are presented in the table below.

	<u>December 31, 2006</u>	<u>December 31, 2005</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Capital Assets				
Buildings	\$ 15,001	\$ 15,001	\$ -	0%
Equipment				
Office Equipment	13,658	13,658	-	0%
Other Equipment	56,493	34,648	21,845	63%
Transportation Equipment	35,062	31,062	4,000	13%
Meters	12,440	12,440	-	0%
Utility System	<u>1,512,524</u>	<u>1,512,524</u>	-	0%
Subtotal	1,645,178	1,619,333	25,845	2%
Less: Accumulated Depreciation	<u>(1,088,613)</u>	<u>(1,027,471)</u>	<u>(61,142)</u>	6%
Net Capital Assets	\$ <u>556,565</u>	\$ <u>591,862</u>	\$ <u>(35,297)</u>	-6%

Washington Parish Gas Utility District Number Two

Management's Discussion and Analysis As of and for the Year Ended December 31, 2006

Purchases of capital assets for the year ended December 31, 2006 were a compact excavator for \$21,450 and a used trailer for \$4,000.

Long-Term Debt

The primary source of long-term financing for Washington Parish Gas Utility District Number Two is revenue bonds financed by the United States Department of Agriculture, Rural Utilities Service (RUS). The bonds were issued on behalf of the District for the purpose of constructing and acquiring improvements, extensions, and replacements to the gas utility system and to retire the previous bond debt of \$376,126. The funds were advanced over a period from June of 1999 to October of 2000, totaling \$758,000. Interest on the debt is charged at a rate of 4.75% per annum payable over twenty years.

Bonds financed for the District do not generally require a specific debt to net income or net cash flow ratio, but bond restrictions do state that the District must set its gas rates at a level necessary to fund debt service requirements and to pay for normal operating expenses of the District. One measure of operating performance of the District is the Debt to Net-Assets ratio. This measure, viewed over time, yields a comparison of how the District has maintained a workable ratio of total debt to net resources of the District.

An increase over an extended period of time would indicate that the District is increasing debt in relation to its operating performance, and in this case the board would analyze other factors, such as overall profitability, to ensure that total debt is increased only in relation to the income that will be earned by financed expansions. Two variations of the debt to assets ratio, total debt to net-assets and total long term debt to net assets, are presented below. As indicated, the ratios are only a measure of performance and should be reviewed over an extended period of time in combination with other factors that indicate the profitability of the District.

	December 31, 2006	December 31, 2005
Total Long-Term Debt	\$ 569,921	\$ 602,673
Total Net Assets	338,624	370,560
Total Long-Term Debt to Net Assets Ratio	1.68	1.63

Future Economic Plans

The Washington Parish Gas Utility District Number Two's management approach is conservative. The Board actively monitors revenues and expenses and evaluates the costs of proposed expansion projects in relation to the revenue the expansion might generate. The District is continuing to replace the old meters, which will reduce the gas loss. The Board reviews accounts receivable on a monthly basis in an effort to reduce delinquent accounts, and continues to search for ways to increase the number of customers they serve. The Board is actively pursuing reimbursements from FEMA to cover the increased operating cost after hurricane Katrina and the gas lost from ruptured lines caused by uprooted trees.

Financial Statements

Statement A

Washington Parish Gas Utility District Number Two
Comparative Balance Sheet
As of December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 117,738	\$ 114,027
Receivables, Net	173,779	213,818
Inventory	34,989	89,691
Prepaid Insurance	24,575	23,741
Total Current Assets	<u>351,081</u>	<u>441,277</u>
Restricted Assets:		
Restricted Cash and Cash Equivalents	76,475	68,723
Restricted Investments	22,000	22,000
Total Restricted Assets	<u>98,475</u>	<u>90,723</u>
Property, Plant, and Equipment		
Property, Plant and Equipment, Net	556,565	591,862
Total Property, Plant, and Equipment	<u>556,565</u>	<u>591,862</u>
Other Assets		
Bond Issue Costs, Net	8,720	9,447
Total Other Assets	<u>8,720</u>	<u>9,447</u>
Total Assets	<u>1,014,841</u>	<u>1,133,309</u>
Liabilities		
Current Liabilities (Payable From Current Assets):		
Accounts Payable	47,306	102,194
Other Accrued Payables	4,695	2,975
Revenue Bonds Payable	34,340	32,750
Total Current Liabilities (Payable From Current Assets)	<u>86,341</u>	<u>137,919</u>
Current Liabilities (Payable From Restricted Assets):		
Customer Deposits	54,295	54,907
Total Current Liabilities (Payable From Restricted Assets)	<u>54,295</u>	<u>54,907</u>
Long Term Liabilities:		
Bonds Payable	535,581	569,923
Total Long Term Liabilities	<u>535,581</u>	<u>569,923</u>
Total Liabilities	<u>676,217</u>	<u>762,749</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	(13,356)	(10,811)
Restricted for:		
Capital Projects and Debt Service	44,180	35,816
Unrestricted	307,800	345,555
Total Net Assets	<u>\$ 338,624</u>	<u>\$ 370,560</u>

The accompanying notes are an integral part of this statement

Statement B

Washington Parish Gas Utility District Number Two
 Comparative Statement of Revenues, Expenses, and Changes in Net Assets

For the years ended December 31, 2006 and 2005

	2006	2005
Operating Revenues		
Gas Sales	\$ 687,457	\$ 742,106
Less Cost of Gas Sold	(282,087)	(344,456)
Gross Profit on Gas Sales	405,370	397,650
Other	7,814	11,365
Total Operating Revenues	413,184	409,015
Operating Expenses		
Compliance Expense	33,475	24,000
Depreciation and Amortization	61,869	60,314
Director's Expense	6,075	5,925
Employee Benefits	31,805	16,017
Insurance	51,941	54,216
Leak Survey	-	11,665
Other	18,787	12,896
Professional Fees	9,833	9,220
Rent	4,122	6,800
Repairs and Maintenance	4,897	2,527
Salaries and Wages	112,602	100,834
Severance Taxes	-	3,115
Supplies - Gas Line	58,478	21,050
Supplies - Office	9,894	4,379
Telephone	5,696	5,034
Vehicle Expense	12,789	9,135
Total Operating Expenses	422,263	347,127
Operating Income (Loss)	(9,079)	61,888
Nonoperating Revenues (Expenses)		
Interest Income	5,027	5,373
Interest Expense	(27,884)	(29,358)
Other Income - Federal Emergency Management Agency	59,127	-
Other Expense - Federal Emergency Management Agency	(59,127)	-
Total Nonoperating Revenues (Expenses)	(22,857)	(23,985)
Change in Net Assets	(31,936)	37,903
Total Net Assets, Beginning	370,560	332,657
Total Net Assets, Ending	\$ 338,624	\$ 370,560

The accompanying notes are an integral part of this statement

Washington Parish Gas Utility District Number Two
Comparative Statement of Cash Flows
Proprietary Fund Type
For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash Flows From Operating Activities		
Received From Customers	\$ 748,168	\$ 639,502
Received for Meter Deposit Fees	(612)	5,074
Other Receipts	7,814	11,365
Payments for Operations	(497,340)	(463,620)
Payments to Employees	(144,407)	(116,851)
Net Cash Provided by Operating Activities	<u>113,623</u>	<u>75,470</u>
Cash Flows From Noncapital Financing Activities		
Federal Emergency Management Grant Receipts	38,614	-
Federal Emergency Management Grant Disbursements	(59,127)	-
Net Cash (Used) by Noncapital Financing Activities	<u>(20,513)</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities		
(Payments for) Capital Acquisitions	(25,845)	(14,303)
Principal Proceeds from (Repayments for) Long Term Debt	(32,752)	(31,248)
Interest Payments for Long Term Debt	(27,918)	(29,383)
Net Cash (Used) by Capital and Related Financing Activities	<u>(86,515)</u>	<u>(74,934)</u>
Cash Flows From Investing Activities		
Receipt of Interest	4,868	5,373
Net Cash Provided by Investing Activities	<u>4,868</u>	<u>5,373</u>
Net Cash Increase (Decrease) in Cash and Cash Equivalents	11,463	5,909
Cash and Cash Equivalents, Beginning of Year	182,750	176,841
Cash and Cash Equivalents, End of Year	<u>\$ 194,213</u>	<u>\$ 182,750</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:		
Cash and Cash Equivalents, Unrestricted	\$ 117,738	\$ 114,027
Cash and Cash Equivalents, Restricted	76,475	68,723
Total Cash and Cash Equivalents	<u>\$ 194,213</u>	<u>\$ 182,750</u>

(Continued)

The accompanying notes are an integral part of this statement

Washington Parish Gas Utility District Number Two
Comparative Statement of Cash Flows
Proprietary Fund Type
For the year ended December 31, 2006

	<u>12/31/06</u>	<u>12/31/05</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)		
by Operating Activities		
Operating Income (Loss)	\$ (9,079)	\$ 61,888
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided		
by Operating Activities:		
Depreciation and Amortization	61,869	60,314
(Increase) decrease in Accounts Receivable	60,021	(93,063)
(Increase) decrease in Other Operating Receivables	823	(424)
(Increase) decrease in Unbilled Receivable	(133)	(9,117)
(Increase) decrease in Inventory	54,702	(14,316)
(Increase) decrease in Prepaid Insurance	(834)	1,709
Increase (decrease) in Accounts Payable	(54,888)	63,245
Increase (decrease) in Accrued Expenses	1,754	160
Increase (decrease) in Customer Deposits	(612)	5,074
Net Cash Provided by Operating Activities	<u>\$ 113,623</u>	<u>\$ 75,470</u>

(Concluded)

The accompanying notes are an integral part of this statement

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

Introduction

Washington Parish Gas Utility District Number Two was created by the Washington Parish Council on July 7, 1972, under provisions authorized by LRS 33:430. The purpose of the District was to build and maintain a natural gas distribution system for the rural area in the western part of Washington Parish. The system serves approximately 762 customers over distribution lines of 165 miles.

The accounting and reporting policies of the District are the responsibility of a five-member board appointed by the Washington Parish Council. These accounting and reporting policies conform to generally accepted accounting principles as applicable to enterprise funds of a governmental entity. Such accounting and reporting procedures also conform to the guides set forth in the *Louisiana Municipal Audit and Accounting Guide* and to the industry audit guide, *Audits of State and Local Governmental Units*.

1. Summary of Significant Accounting Policies

A. Measurement Focus and Basis of Accounting and Financial Statement Presentation

Basis of Presentation

The District's financial statements are prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principle Board (APB) of the Committee On Accounting Procedure, issued on or before November 30, 1989, unless those pronouncements conflict or contradict with GASB pronouncements.

These financial statements are presented in conformance with GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*. Statement No. 34 established standards for financial reporting, with presentation requirements including a statement of net assets (or balance sheet), a statement of activities and changes in net assets, and a statement of cash flows. The District has also adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, that require capital contributions to the District be presented as a change in net assets.

Reporting Entity

As the governing authority of the parish, for reporting purposes, the Washington Parish Council is the financial reporting entity for Washington Parish.

The financial reporting entity consists of (a) the primary government, parish council, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Washington Parish Gas Utility District Number Two
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Governmental Accounting Standards Board Statement No 14 established criteria for determining which component units should be considered part of the Washington Parish Council for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

- 1) Appointing a voting majority of an organization's governing body, and
 - a) The ability of the parish council to impose its will on that organization and/or
 - b) The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Parish Council.
- 2) Organizations for which the parish council does not appoint a voting majority but are fiscally dependent on the Parish Council.
- 3) Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Because the parish council appoints the governing board and has the ability to significantly influence operations, the District was determined to be a component unit of the Washington Parish Council, the financial reporting entity.

The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Parish Council, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

Fund Accounting

All activities of the District are accounted for in a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing authority is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. The term measurement focus denotes what is being measured and reported in the District's operating statement. Financial operations of the District are accounted for on the flow of economic resources measurement focus. With this measurement focus, all of the assets and liabilities, available to the District for the purpose of providing goods and services to the public, are included on the balance sheet. The activity statement includes all costs of providing goods and services during the period.

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues are susceptible to accrual basis of accounting. The principal operating revenues of the proprietary funds are gas revenue recurring customer user charges for the services provided by the enterprise fund. Bills are rendered at the beginning of each month for gas used the previous month and primarily collected in the following month. Re-connect and installation fees are recorded in the month service is rendered and collected. Interest income is paid and recorded on a monthly basis. Interest is accrued as earned on treasury notes.

Operating expenses for the enterprise fund include the cost of gas sold and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The District records expenses as they are incurred. Gas and supplies purchased are billed monthly and paid the following month.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

B. Cash and Cash Equivalents and Investments

Cash includes unrestricted amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and investments in bank certificates with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

C. Investments

Investments are limited by Louisiana Revised Statute (R.S.) 33:2955 and the District's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

The following disclosures are required by GASB Statement No. 31:

- The District uses the quoted market prices to estimate the fair value of the investments.
- None of the investments are reported at amortized cost
- There is no involuntary participation in an external investment pool.

D. Inventories

The District purchases their estimated monthly gas allotment based on historical analysis. By agreement with El Paso Energy Co., the District is allowed to store any surplus gas in the El Paso Energy Co. facilities. Inventories of gas are valued at lower of cost or market and are expensed using the first-in first-out method.

Purchases of various operating supplies are regarded as expenditures at the time purchased, and inventories of such supplies (if any) are not recorded as assets at the close of the fiscal year.

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

E. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items. Prepaid items consist of prepaid insurance premiums.

F. Restricted Assets

Customer deposits are included as restricted assets and are offset by corresponding restricted liabilities. Money received for utility deposits paid by new customers is held at various banks in Franklinton, Louisiana. The District holds meter deposits until a customer becomes inactive. The meter deposit is then applied to the accounts receivable balance due and any remainder is refunded to the customer. Current meter deposits are: large commercial \$150, small retail \$120, renters \$150, and homeowner \$100.

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants. The revenue bond reserve account and contingency account were established as part of the \$758,000 gas utility revenue bond series 1998 indenture. The bond reserve account is an investment account (bank savings account) where funds are accumulated (\$151 per month) and held in reserve for payment of bonds and interest when the necessary funds would not be available from operating funds. Maximum amount for the reserve account is one year's payments of interest and principle (\$60,672). The contingency account is an investment account where funds are accumulated (\$253 per month) to pay for any emergency repairs or other contingencies that may arise. There is no maximum balance established for this account. Accumulation of these funds was to commence upon completion and acceptance of the new distribution line (September 2001).

G. Capital Assets

Capital assets of the District are defined by the District as assets with an initial, individual cost of more than \$500, and an estimated useful life in excess of one year. Capital assets are recorded at either historical cost or estimated historical cost. Donated assets are valued at their estimated fair market value on the date donated. Depreciation of all exhaustible fixed assets is charged as an expense against operations.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	10 - 20 Years
Equipment	5 - 10 Years
Meters	20 Years
Utility System	40 Years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Washington Parish Gas Utility District Number Two
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Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

H. Compensated Absences

The District has the following policy related to vacation and sick leave:

All employees of the District earn 10 days of vacation leave each year. Vacation leave must be taken following the year earned. However, upon termination or retirement, employees are paid for any unused vacation leave earned during the current year. All employees earn one half day of sick leave each month during the year. A total of 18 days of sick leave can be accumulated. All accumulated sick leave lapses upon termination. There were no accumulated or vested leave benefits reported by the District in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, as of December 31, 2006.

I. Long-Term Obligations

Long-term liabilities are recognized within the Enterprise Fund. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

J. Net Assets

GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*, requires classification of net assets, the difference between the District's assets and liabilities, into three components, as described below:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or indebtedness attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset calculation as unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
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K. Comparative Data/Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the control of the District, which are either unusual in nature or infrequent in occurrence.

M. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

At December 31, 2006, the District has cash and cash equivalents (book balances), as follows:

	December 31, 2006	December 31, 2005
Demand Deposits	\$ 133,172	\$ 114,027
Time and Savings Accounts	61,041	68,723
	\$ 194,213	\$ 182,750

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2006, the District has \$230,611 in deposits (collected bank balances) at four separate banks consisting of \$147,570 in demand deposits and \$61,041 in time and savings accounts. The demand deposits totaling \$147,570 were secured from risk by \$100,000 of federal deposit insurance, and pledged securities in the amount of \$47,570. The time and savings accounts totaling \$61,041 were secured from risk by federal deposit insurance. The pledged securities at one bank are represented by a federal letter of credit, from the Federal Reserve Bank of New Orleans, Louisiana, registered in the name of the pledging bank. Because the pledged security is not registered in the District's name, the deposits are considered un-collateralized (Category 3) under the provisions of GASB Statement Number 3.

Washington Parish Gas Utility District Number Two
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3. Investments

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the District or its agent in the District's name
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the District's name

All investments held by the District fall into category 1 credit risk, defined as "insured or registered, or securities held by the District or its agent in the District's name." In accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investments are carried at fair market value, with the estimated fair market value based on quoted market prices. The only investments held at December 31, 2006 consisted of certificates of deposits held as restricted assets and detailed in footnote 5.

4. Receivables

The following is a summary of receivables at December 31, 2006 and 2005:

	<u>Year Ended December 31, 2006</u>	<u>Year Ended December 31, 2005</u>	<u>Increase (Decrease)</u>
Accounts Receivable			
Current	\$ 104,176	\$ 171,901	\$ (67,725)
31-60 Days Past Due	13,652	9,636	4,016
61-90 Days Past Due	5,058	2,465	2,593
Over 90 Days Past Due	<u>2,088</u>	<u>993</u>	<u>1,095</u>
Subtotal	124,974	184,995	(60,021)
Allowance for Uncollectible Accounts	<u>(5,826)</u>	<u>(5,826)</u>	-
Net Accounts Receivable	<u>\$ 119,148</u>	<u>\$ 179,169</u>	<u>\$ (60,021)</u>
Other Receivables			
Unbilled Gas Revenue	33,280	34,103	(823)
Due from the Federal Emergency Management Agency	20,513	-	20,513
Other	<u>838</u>	<u>546</u>	<u>292</u>
Total Other Receivables	<u>54,631</u>	<u>34,649</u>	<u>19,982</u>
Total Receivables, Net	<u>\$ 173,779</u>	<u>\$ 213,818</u>	<u>\$ (40,039)</u>

All customer receivables are reported at gross value and reduced by the portion that is expected to be uncollectible. Periodically, the board reviews the aging of receivables and determines the actual amount

Washington Parish Gas Utility District Number Two
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uncollectible. Per board approval, uncollectible amounts are written off against accounts receivable, and the allowance for doubtful accounts is adjusted to a reasonable estimate of uncollectibility.

Unbilled revenues (accrued billings) consist of gas consumed between the final meter reading date in the last billing cycle of the year and not billed to the customers until the next month in the subsequent fiscal period. At December 31, 2006, accrued billings amounts were \$33,280, and \$34,103 at December 31, 2005.

Uncollectible amounts due from customer receivables are recognized as bad debt at the time information becomes available which would indicate the particular receivable is uncollectible. Bad debts are charged off against an allowance for doubtful accounts established as the greater of an average of the last three years charge off's or the average charge off percentage of charge offs to sales. There was no bad debt expense during the year ended December 31, 2006.

5. Restricted Assets

The following is a summary of restricted assets at December 31, 2006 and 2005:

	December 31, 2006	December 31, 2005
Restricted Cash and Cash Equivalents		
Customer Deposits	\$ 32,711	\$ 33,060
Bond Reserve Account	19,036	15,634
Bond Contingency Account	24,728	20,029
Restricted Investments		
Customer Deposits - money market accounts and CD's	22,000	22,000
Total Restricted Assets	\$ 98,475	\$ 90,723

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

6. Capital Assets

A summary of changes in capital assets during the fiscal year ending December 31, 2006 is as follows:

	<u>Beginning Balance 12/31/05</u>	<u>Additions and Reclassifications</u>	<u>Deletions and Reclassifications</u>	<u>Ending Balance 12/31/06</u>
Capital Assets				
Buildings	\$ 15,001	\$ -	\$ -	\$ 15,001
Equipment				
Office Equipment	13,658	-	-	13,658
Other Equipment	34,648	21,845	-	56,493
Transportation Equipment	31,062	4,000	-	35,062
Meters	12,440	-	-	12,440
Utility System	1,512,524	-	-	1,512,524
Total Capital Assets	<u>1,619,333</u>	<u>25,845</u>	<u>-</u>	<u>1,645,178</u>
Less Accumulated Depreciation for:				
Buildings	(3,695)	(1,334)	-	(5,029)
Equipment				
Office Equipment	(10,083)	(911)	-	(10,994)
Other Equipment	(22,394)	(4,084)	-	(26,478)
Transportation Equipment	(9,062)	(6,454)	-	(15,516)
Meters	(11,259)	(340)	-	(11,599)
Utility System	(970,978)	(48,019)	-	(1,018,997)
Total Accumulated Depreciation	<u>(1,027,471)</u>	<u>(61,142)</u>	<u>-</u>	<u>(1,088,613)</u>
Total Capital Assets, Net	<u>\$ 591,862</u>	<u>\$ (35,297)</u>	<u>\$ -</u>	<u>\$ 556,565</u>

Depreciation totaling \$61,142 is computed on a straight line basis for financial statement purposes.

7. Long-Term Obligations – United States Department of Agriculture Rural Development Bonds

The following is a summary of long-term obligation transactions for the year ended December 31, 2006:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-Term Debt					
Gas Utility Revenue Bond Series 1998	\$ 602,673	\$ -	\$ (32,752)	\$ 569,921	\$ 34,340
Total Long-Term Debt	<u>\$ 602,673</u>	<u>\$ -</u>	<u>\$ (32,752)</u>	<u>\$ 569,921</u>	<u>\$ 34,340</u>

The current balance of \$663,880 (original issue of \$758,000 of par value Gas Utility Revenue Bonds series 1998 dated June 1, 1999) were issued on behalf of the District for the purpose of constructing and acquiring improvements, extensions, and replacements to their gas utility system and to retire the old bond debt (\$376,126). The funds were advanced over a period from June 1999-October 2000, and totaled

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
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\$758,000. The bond debt consists of one bond payable to the USDA Rural Development. Payments of \$5,056 commenced July 2000, and include interest at the rate of 4.75 percent per annum payable over twenty years. In addition to the monthly payment of the bonded debt the District is to make monthly payments to a reserve fund (\$253), and a contingency fund (\$375), commencing upon date of completion and acceptance of the extension project. At December 31, 2006, the reserve and contingency funds were fully funded.

The annual requirements to amortize all debt outstanding as of December 31, 2006, are as follows:

Year Ending 12/31/06	1998 Gas Revenue Bonds		
	Principal	Interest	Total
2007	\$ 34,340	\$ 26,330	\$ 60,670
2008	36,007	24,663	60,670
2009	37,755	22,915	60,670
2010	39,588	21,082	60,670
2011	41,510	19,160	60,670
2012 to 2016	239,807	63,543	303,350
2017 to 2019	140,914	8,695	149,609
	<u>\$ 569,921</u>	<u>\$ 186,388</u>	<u>\$ 756,309</u>

Balances and activity for the Reserve Fund and Depreciation and Contingency Fund for the fiscal year ending December 31, 2006 are as follows:

	Beginning Balance	Contributions	Interest	Ending Balance
Rerserve Fund	\$ 15,634	\$ 3,033	\$ 369	\$ 19,036
Contingency Fund	20,029	4,500	199	24,728

8. Restricted and Designated Net Assets

At December 31, 2006, Washington Parish Gas Utility District Number Two recorded \$44,180 in Restricted Net Assets (Restricted for Capital Activity and Debt Service), representing the District's funds restricted by revenue bond debt covenants, contracts with customers for meter deposits, and the unspent portion of capital debt related to amounts restricted for capital projects less liabilities related to these restricted funds. A liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated with the restricted assets.

9. Budget

The proposed budget for 2006 was presented at the November 22, 2005 board meeting, and adopted at the December 15, 2005 board meeting. The budget is prepared on the accrual basis of accounting, with additional provision made for bond debt service. The board forwarded a copy of the approved budget to the Washington Parish Council. The board reviews the budget actual comparison on a monthly basis as a part of their management of the system. The 2006 budget was amended at the November 21, 2006 board

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

meeting. The 2007 budget was presented at the November 21, 2006 board meeting and adopted at the December 8, 2006 meeting.

10. Pension Plan

The District adopted a "Simple IRA" retirement plan on April 4, 2005. The prototype plan provides for participating (employee election-\$5,000 earnings in any previous two years) employees to defer through payroll withholding up to \$10,000 per year. The District agreed to match employee withholdings, up to three percent of each participating employees' wages. Contributions are made each month following the month withholdings are collected. Total pension fund expense was \$3,186 for the fiscal year ending December 31, 2006.

11. Litigation and Claims

As of December 31, 2006, the District was not involved in any litigation or claims.

12. Leases

The District does not have any items under a capital or operating lease at December 31, 2006.

13. On-Behalf Payments

The Washington Parish Council pays certain operating expenditures of the District. The District's office is located in a building leased by the Council. The Council pays the rent and utilities on the building (office space approximately 80 square feet). These expenditures are not reflected in the accompanying financial statements.

14. Intergovernmental Agreement

The District and the Parish Council signed an intergovernmental cooperative agreement concerning the use of Parish Council property for an equipment yard and space for the storage shed. The term of this agreement was for the period June 1, 2002 through May 31, 2003. The term is extended on a month-to-month basis after May 31, 2003, with either party having the right to cancel the agreement by giving 60 days written notice to the other party. The District constructed a fence around the property and placed a portable storage building on the property. The District has the right to remove any improvements made to the property within 30 days after the effective date of cancellation.

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

15. Federal Emergency Management Assistance

The District had incurred additional storm related expenditures of \$64,312. The federal government under emergency management assistance reimbursed the District \$59,127, resulting in cost to the District of \$5,185. The District received \$38,614 with amount due from government of \$20,513. Whereas the District feels that based on the documentation submitted and feedback from the federal agency that the receivable of \$20,513 will be paid to the District, a final determination for eligibility of reimbursement has not been made by FEMA.

16. Related Party Transaction

There were no related party transactions noted other than those previously described in the on-behalf payments and intergovernmental agreement footnotes for the year ended December 31, 2006.

Supplemental Information

Washington Parish Gas Utility District Number Two
Budgetary Comparison Schedule
For the year ended December 31, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues				
Gas Sales	\$ 733,000	\$ 653,000	\$ 687,457	\$ 34,457
Less Cost of Gas Sold	(344,500)	(284,500)	(282,087)	2,413
Gross Profit on Gas Sales	<u>388,500</u>	<u>368,500</u>	<u>405,370</u>	<u>36,870</u>
Other	<u>10,750</u>	<u>6,100</u>	<u>7,814</u>	<u>1,714</u>
Total Operating Revenues	<u>399,250</u>	<u>374,600</u>	<u>413,184</u>	<u>38,584</u>
Operating Expenses				
Compliance Expense	24,000	24,000	33,475	(9,475)
Depreciation and Amortization	55,000	55,000	61,869	(6,869)
Director's Expense	8,100	8,500	6,075	2,425
Employee Benefits	14,500	29,500	31,805	(2,305)
Insurance	50,000	41,000	51,941	(10,941)
Leak Survey	12,000	7,300	-	7,300
Other	14,800	13,160	18,787	(5,627)
Professional Fees	9,200	9,900	9,833	67
Rent	6,800	5,500	4,122	1,378
Repairs and Maintenance	2,500	6,500	4,897	1,603
Salaries and Wages	100,800	100,800	112,602	(11,802)
Severance Taxes	3,100	3,100	-	3,100
Supplies - Gas Line	13,500	18,500	58,478	(39,978)
Supplies - Office	6,700	18,000	9,894	8,106
Telephone	5,000	6,300	5,696	604
Vehicle Expense	<u>9,000</u>	<u>13,200</u>	<u>12,789</u>	<u>411</u>
Total Operating Expenses	<u>335,000</u>	<u>360,260</u>	<u>422,263</u>	<u>(62,003)</u>
Operating Income (Loss)	<u>64,250</u>	<u>14,340</u>	<u>(9,079)</u>	<u>(23,419)</u>
Nonoperating Revenues (Expenses)				
Interest Income	\$ 5,000	\$ 5,000	\$ 5,027	\$ 27
Interest Expense	(30,900)	(28,000)	(27,884)	116
Other Income - Federal Emergency Management Agency	-	-	59,127	59,127
Other Expense - Federal Emergency Management Agency	-	(25,100)	(59,127)	(34,027)
Total Nonoperating Revenues (Expenses)	<u>(25,900)</u>	<u>(48,100)</u>	<u>(22,857)</u>	<u>25,243</u>
Change in Net Assets	38,350	(33,760)	(31,936)	1,824
Total Net Assets, Beginning	<u>370,560</u>	<u>370,560</u>	<u>370,560</u>	<u>-</u>
Total Net Assets, Ending	<u>\$ 408,910</u>	<u>\$ 336,800</u>	<u>\$ 338,624</u>	<u>\$ 1,824</u>

See independent auditor's report.

Washington Parish Gas Utility District Number Two
Schedule of Insurance
For the year ended December 31, 2006

<u>Insurance Company / Policy Number</u>	<u>Coverage</u>	<u>Amount</u>	<u>Period</u>
American Empire Surplus Lines 6EP07644	General Liability: General Aggregate Personal & Advertising Injury Each Occurrence Fire Damage Medical Expense Per Person	\$ 2,000,000 1,000,000 1,000,000 100,000 5,000	06/01/06 to 06/01/07
Progressive Auto Insurance 02230428-2	Auto Insurance Bodily Injury / Property Damage Combined Single Limit (CSL) Uninsured / Underinsured (CSL) Hired Autos Liability (CSL) Employer Nonowned Auto (CSL) Comprehensive & Collision Medical Payments	500,000 100,000 500,000 500,000 5,000 per person	07/23/06 to 07/23/07
Louisiana Workers Compensation Corporation (LWCC) 76619-A	Workers Compensation	At Statutory Limitations	09/12/06 to 09/12/07
CNA Surety Company - Bond 68863996	Scheduled Coverages for Board Members and Employees Board Member Board Member Board Member Employee Employee	500,000 500,000 500,000 500,000 500,000	07/23/06 to 07/23/07

See Independent Auditor's Report.

Schedule 3

**Washington Parish Gas Utility District Number Two
Schedule of Compensation Paid to Board Members
For the year ended December 31, 2006**

The Board of Commissioners of the District consists of five members appointed by the Washington Parish Government. The following schedule of compensation paid to board members is presented in compliance with House Concurrent Resolution Number 54 of the 1979 Session of the Louisiana Legislature. Compensation did not exceed provisions of R.S.33:4305.B.[1].

<u>Name and Title / Contact Number</u>	<u>Address</u>	<u>Compensation Received</u>	<u>Term Expiration</u>
Earl Forrest, Chairman (985) 877-5065	28755 Webb Road Mount Hermon, LA 70450	\$ 1,800	12/31/10
John Stevens, Vice-Chairman (985) 839-2133	40299 Highway 16 Franklinton, LA 70438	1,800	12/31/09
George McKenzie (985) 848-2476	56151 B.B. McKenzie Road Franklinton, LA 70438	975	12/31/08
Olander Smith (985) 839-2313	31253 Highway 438 Franklinton, LA 70438	600	12/31/07
Joe H. Davis (985) 839-6537	46661 Emma Hart Road Franklinton, LA 70438	900	12/31/11
		<u>\$ 6,075</u>	

Re-appointments are made each January for the member whose term expires. The district will request the re-appointment of Olander Smith.

See independent auditor's report.

Washington Parish Gas Utility District Number Two
 Schedule of Gas Rates
 For the year ended December 31, 2006

Residential, Commercial, and Industrial Rates

\$ 26.00 - First 100 cubic feet (CCF) (Minimum Charge)
 \$ 2.60 - Per 100 cubic feet (CCF)
 Any overages are charged at \$1.40

Each month the rates are adjusted based on the rates paid to the Louisiana Municipal Gas Authority (LMGA), the gas distributor.

As of December 31, 2006 and 2005, the district had the following number of customers:

Schedule of Number of Customers

	<u>December 31, 2006</u>	<u>December 31, 2005</u>	<u>Increase (Decrease)</u>
Customers			
Active	762	823	(61)
Locked	265	181	84
Total Customers	<u>1,027</u>	<u>1,004</u>	<u>23</u>

See independent auditor's report.

Washington Parish Gas Utility District Number Two
Summary Schedule of Prior Year Audit Findings
For the year ended December 31, 2006

Section I - Internal Control and Compliance Material to the Financial Statements

No Findings for Section I.

Section II - Internal Control and Compliance Material to the Federal Awards

Not Applicable.

Section III - Management Letter

No Findings for Section III.

**Washington Parish Gas Utility District Number Two
Corrective Action Plan for Current Year Findings
For the year ended December 31, 2006**

Section I - Internal Control and Compliance Material to the Financial Statements

No Findings for Section I.

Section II - Internal Control and Compliance Material to the Federal Awards

Not Applicable.

Section III - Management Letter

No Findings for Section III.

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Washington Parish Gas Utility District Number Two
Washington Parish Council
Franklinton, Louisiana

We have audited the accompanying financial statements of the business-type activities of the Washington Parish Gas Utility District Number Two, a component unit of the Washington Parish Council, as of and for the year ended December 31, 2006, and have issued our report thereon June 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Washington Parish Gas Utility District Number Two's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Washington Parish Gas Utility District Number Two's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the Washington Parish Gas Utility District Number Two's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Washington Parish Gas Utility District Number Two's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of

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To the Board of Commissioners
Washington Parish Gas Utility District Number Two
Washington Parish Council
Franklinton, Louisiana
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control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This report is intended for the information of management of the Washington Parish Gas Utility District Number Two, the Louisiana Legislative Auditor, and the United States Department of Agriculture Rural Utilities Service, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and is distributed by the Legislative Auditor as a public document in accordance with Louisiana Revised Statutes 24:513.



Bruce Harrell & Company, CPAs
A Professional Accounting Corporation
June 28, 2007